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International Trade of Communist China, 1950-65

by

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I. Foreign Trade and the Economy of Communist China

A. An Overview

Foreign trade in Communist China is a state monopoly that is used by the Party leaders as an important instrument of national policy for the pursuit of political objectives, both at home and abroad. The Chinese Communist regime seeks to create a strong, unified, and thoroughly communized China capable of achieving an independent great-power status and a position of leadership in Asia. This objective requires the transformation of China from a backward agrarian country into an industrialized state, with a powerful military establishment and broad international recognition. Specifically, foreign trade is directed toward assisting in obtaining these policy objectives by: (1) providing capital-goods imports embodying modern technology for the development of industry, (2) compensating for serious shortfalls and relieving bottlenecks in domestic production, and (3) developing trade as a wedge to promote Chinese influence abroad, both in other Communist countries and in less-developed Free World countries.

Up to 1960, Communist China's pattern of trade was dominated by the exchange of Chinese agricultural and mineral products and increasingly textiles, for machinery and raw materials contributing to the growth of the industrial base. Although the physical make-up of imports and exports reflected economic goals, the geographical

direction of China's trade was strongly influenced by ideology. Mao established the "lean-to-one-side" policy for China at the beginning of the Communist regime. This policy resulted in China's economic orientation toward other Communist countries, particularly the USSR. This policy was reinforced by the Western trade embargo against China imposed in 1950 following China's intervention in the Korean War. Imports were obtained from the Free World chiefly when they were not available or were in short supply in the Communist world.

Since 1960, both the commodity and geographical patterns of Communist China's foreign trade have shifted dramatically. The collapse of the "leap forward" and the withdrawal of Soviet technicians from China in 1960, the persistent need for imports of Western grain, and the continuing deterioration in Sino-Soviet relations have combined to lower the volume of trade and to alter sharply its direction and composition. China's total trade rose from \$1.2 billion in 1950 to a peak of \$4.3 billion in 1959, and then declined to a level of \$2.7 billion in 1962. This downturn was reversed in 1963, and by 1965 trade had increased to an estimated \$3.7 billion. Since 1960 a major realignment in China's trading partners has taken place. Communist countries used to account for two-thirds of China's trade before 1960, but today the shares are reversed, the Free World now accounting for 70 percent of China's total trade. (See Table 1.)

The Chinese acted with some deliberation in their liquidation of Mao's "lean-to-one-side" policy. After such Soviet actions as the cancellation of a "defense technology" agreement in 1959 and the abrupt withdrawal of Soviet specialists in 1960, the Chinese set about to lessen their dependence on the Soviet Bloc, and, if necessary, to be in a position to adjust to a break in relations. One of their earliest acts was to maintain the priority for the development of China's petroleum industry, even during the time when the over-all investment program was being slashed. The earlier concentration on development of petroleum exploration and extraction was followed by a few orders for refining equipment and petro-chemical plants for delivery by the Free World in 1964-65. Thus China was able to reduce sharply its imports of petroleum from the USSR. Another of China's priority objectives was the rapid elimination of debt to the USSR. Simultaneously, the Chinese moved toward a phasing out of Soviet deliveries of equipment for complete plants and toward a careful cultivation of Free World contacts and detailed knowledge of Free World market conditions. The decision to purchase Free World equipment for high priority plants was apparently reached at the 10th Plenum of the Eighth Congress of the Chinese Communist Party in September 1962, but orders were not placed until August 1963.

The commodity composition of Communist China's foreign trade has continued to follow the trend set in 1961, despite the substantial recovery in both imports and exports since 1963. (See Table 2.) Imports of agricultural products (largely wheat,

raw cotton, sugar, and jute) and chemical fertilizers continued to dominate China's imports, and accounted for 47 percent of China's total imports in 1965. In contrast, in 1959 imports of agricultural products and chemical fertilizer amounted to only 4 percent of China's total imports. Imports of machinery and equipment, although showing a substantial rise in 1965, amounted to only \$330 million, still far short of the nearly \$1 billion in 1959. Part of this increase in imports of machinery and equipment in 1965 was accounted for by complete plants from the West contracted for in 1963, and just beginning to enter the country.

The major trend in Communist China's exports since 1963 has been the recovery in the export of agricultural products. For the first time in recent years food exports in 1965 drew roughly even with food imports in value. China exchanged high-value food products (rice, vegetables, processed foods and meat products) for cheaper wheat. After foodstuffs, textiles remained the single largest export earner, but exports declined slightly in 1965 as increased shipments to the West failed to offset the decline in exports to the Soviet Union. Exports of minerals and metals, once a prime earner of foreign exchange, continued to lag.

B. Credit and Foreign Exchange Limitations*

Communist China's exports have been by far the dominant source of foreign exchange, accounting for four-fifths of total receipts. The receipts of foreign

* This section draws heavily on the summary and conclusion of CIA/RR ER 66-17, "Communist China's Balance of Payments, 1950-65," Washington, D.C., August 1966.

credits, overseas remittances, and other earnings have played a less important role in financing China's imports. (See Figure 1.) During 1950-57 the rapid growth of the economy provided an upsurge in exports, which, supplemented by more than a billion dollars in long-term foreign aid from the USSR and almost another billion in remittances from overseas Chinese, helped China meet its expanded requirements for foreign machinery and raw materials. In contrast, the excesses of the "leap forward" (1958-60) caused imports quickly to outpace exports, resulting in a sharp rise in short-term foreign indebtedness and a decline in China's international reserves. The deterioration of China's international payments position was slowed in 1961-62 by deep cuts in imports from Communist countries and by new infusions of foreign credit.

By 1963, China's international financial position began to improve because of a revival of exports and continued restrictions on purchases of machinery and raw materials from both the USSR and the West. By the end of 1964, China's clearing indebtedness with Communist countries (especially the USSR) amounting to about \$360 million had been almost eliminated. Moreover, by generating a large export surplus with the USSR each year, the Chinese were able by 1965 to finish repaying their long-term debt to the USSR.

Communist China for the first time turned to the West in 1961 for credits and by the end of 1964 had received credits of almost \$1.2 billion. Unlike the

credits from Communist countries, however, those from the West have provided only short and medium-term financing, most of which have been 18 month's credits to cover China's huge annual grain purchases. Other short-term credit from the West has covered China's large fertilizer purchases. Western credits have given little respite to China in meeting its hard currency obligations, however, because repayments each year now almost offset new drawings. If the Chinese leaders continue to rely on medium-term credits, repayments may even surpass new drawings in the next few years.

China, therefore, may seek long-term credits from the West to finance imports of additional plant and equipment needed to accelerate their industrial development.

China's failure to seek long-term credits from the West probably reflects the uncertainty of the leadership over future requirements for Western grain and the high cost of credit.

Communist China's foreign exchange holdings do not allow for any sustained trade expansion. China, when the Communists took it over in 1949, had almost no international financial resources. But China was able to build-up its international reserves by imposing a strict and highly effective system of trade and foreign exchange controls, by borrowing from the USSR, and by obtaining foreign currencies from overseas remittances and from the "surrender" by private individuals of foreign exchange and gold. Chinese holdings of Western currency and gold reached a peak of about \$650 million at the end of 1957. These holdings were heavily drawn on during and

following the "leap forward" from 1958 to 1962. By 1964 they were probably only about \$400 million, well below the peak level of 1957. Thus holdings of Western currency and gold now are much less than in 1957, but trade with the Free World now is more than double the 1957 level. (See Table 3.)

During 1965 Communist China's holdings of gold and convertible currencies probably rose by \$100 to \$150 million as China increased the use of its export earnings to build up reserves. In 1965, China made its first purchases of gold on the world market, which amounted to \$135 million and were paid for in sterling. This exchange of sterling for gold reflected not only the leadership's decision to diversify its international reserves, as a hedge against the possible devaluation of sterling, but also its more immediate concern over the deepening political and military crisis in Southeast Asia. The Chinese nevertheless must have continued to hold some sterling balances overseas.

C. Foreign Aid

Communist China has used its foreign aid program in an attempt to extend its political influence in both Communist and Free World countries. (See Tables 4 and 5.) Although the Chinese have directed their trade toward the West in recent years, China continues to channel its foreign economic assistance largely to Communist countries, especially those of Asia, as shown in the following tabulation:

Communist China: Extension of Credits and Grants to Communist and Free World Countries, 1953-65
 (Million US \$)

<u>Communist Countries</u>	<u>Total</u>
	<u>1,223.5</u>
North Vietnam	457
North Korea	330
Outer Mongolia	115
Albania	164
Cuba	100
Hungary	57.5
<u>Free World Countries</u>	<u>815</u>
Asia	410
Africa	264
Middle East	141
<u>Total</u>	<u>2,038.5</u>

The bulk of the actual drawings on these credits -- at least \$1 billion -- has gone to Communist countries, chiefly North Vietnam and North Korea. Drawings by the less-developed Free World countries have lagged considerably behind credit extensions and through December 1965 were estimated at some \$200 million, only about 25 percent of total foreign aid expenditures. China made record aid extensions in 1964 to the less-developed Free World countries of \$338 million, but as in the past, drawings against these recent credits to the Free World probably will be extremely slow.

The predominant role of the Communist countries in China's foreign aid program is likely to continue, inasmuch as these nations are the main areas in which China and the USSR are competing for influence. The increasing political isolation of China

in the international communist movement, however, may narrow the scope of China's aid program. North Vietnam and Albania have been the only Communist nations recently receiving Chinese aid. The principal focus of Sino-Soviet aid competition is in North Vietnam. Both China and the USSR have stepped up their economic and military aid to North Vietnam, partially as a result of US air strikes, but also for the prosecution of the war in South Vietnam.

II. Trade with the Communist Countries

A. The Soviet Bloc

1. Mutual Cooperation during the 1950's

Communist China based its industrial and technological growth of the 1950's on the rapid build-up of trade with the Soviet Union, in particular the flow of Soviet-produced machinery and equipment to China. Sino-Soviet trade grew more than fivefold from \$320 million in 1950 to more than \$2 billion in 1959. More than \$12 billion in goods were exchanged between the two partners during this period. Of this amount, more than \$1 billion worth of machinery and equipment for complete industrial installations was supplied China by the Soviet Union. Financial aid extended to China by the Soviet Union has been relatively small. The Soviet Union extended loans to China amounting to about \$1.4 billion, of which \$430 million was for economic development and the rest primarily for military purchases. The Soviet Union provided significant technical aid to China over the decade of the 1950's, including (a) supplying vast quantities of blueprints and technical information, (b) sending 10,000 Soviet advisers and technicians to China to perform a wide variety of tasks, and (c) making available its own teaching facilities in the USSR for training 8,000 Chinese technicians and researchers and 7,000 academic students.

a. Industrial Projects in China

The core of Communist China's program for rapid industrialization was the Soviet commitment to assist China in the building of 291 major industrial plants

by 1967. The Soviet equipment for these plants was valued at \$3.3 billion, or some \$11 million on the average for each project. By the end of 1959, \$1.35 billion worth of equipment for these projects had been delivered and about 130 projects had been completed. (See Table 6.) With Soviet and Eastern European support, Communist China expanded production of heavy industry from 1952 to 1959 at an annual average rate of about 25 percent; without this aid the rate would have been far lower. This flow of equipment and technical assistance had a vital effect on the quality of China's industrialization, enabling China to produce such prestige items as jet aircraft, submarines, large electric generating equipment, metal-cutting machine tools, tractors, trucks, and electronic equipment. Soviet aid to China also included extensive training of Chinese scientists and technicians in the nuclear sciences in both the USSR and China, including the supply of experimental reactors and other nuclear related technology, designed to eventually provide a base which could support native Chinese production of Soviet-designed weapons.

The sudden withdrawal of Soviet support in mid-1960 was, in the words of Chinese economic planner Po I-po, like "taking away all the dishes when you have only eaten half a meal." About 20 percent of the Soviet aid plants begun under agreements concluded prior to 1958 were incomplete. For example, much work remained to be done on the important steel complexes of Pao-t'ou and Wu-han, and on construction

of the large hydro-electric station in San Men Gorge on the upper reaches of the Yellow River. Most of the 125 Soviet aid plants contracted for under agreements concluded in August 1958 and February 1959 and scheduled for completion by 1967 were still in the planning stage. These latter projects included facilities for the production of chemicals, the development of a more balanced steel industry, additional support to defense industries, and the provision of specialized machine tools and precision instruments. Thus, the Chinese were still highly dependent on the Soviet Union for new plants and product designs involving technology not already furnished or with which the Chinese had little experience. The degree of dependence varied, some industries requiring only capital equipment for further development, others needing only technical assistance, and still other more complex industries -- depending on both imported knowledge and equipment.

Although none of the European Satellites extended long-term financial assistance for Communist China's development efforts, they did negotiate assistance agreements calling for the construction in China of a number of large projects. Agreements for at least 100 projects were signed and construction of about two-thirds of these projects were completed and placed into operation by 1959, including electric power, chemical, and sugar-refining plants.

b. Trade Flows

(1) USSR

The USSR's share in China's foreign trade increased from a mere 5 percent before the Communist revolution to approximately 50 percent in 1959. By 1959, Soviet exports to China were as large as those to all Free World underdeveloped countries combined. One-sixth of Soviet exports of machinery and nearly three of every four complete plants sent abroad went to China. (See Table 7.)

At the height of Sino-Soviet Commercial relations in 1959, Communist China rivalled East Germany as the Soviet Union's principal trading partner. China supplied one-fifth of the Soviet Union's total imports, two-thirds of her food imports and three-quarters of her textile imports. Soviet willingness to accept Chinese agricultural raw materials and large amounts of industrial consumer goods, especially textiles, permitted China to pay for the large-scale imports of machinery and equipment needed for industrialization. (See Table 8.)

Communist China has acknowledged the receipt of long-term credits from the Soviet Union amounting to \$1,405 million. These included an economic loan of \$300 million granted in 1950; a further economic credit of \$130 million in 1954; a loan in 1955 covering the transfer to China of Soviet holdings in for joint-stock companies and other Soviet-owned assets in China believed to total \$330 million; and

other miscellaneous credits totalling \$645 million, probably mainly used for military purposes. The Soviet Union provided some additional financial aid to China following the collapse of the "leap forward" by funding \$320 million of outstanding short-term indebtedness in 1961 over a five year period, and by extending a loan of \$46 million for the import of 500,000 tons of Cuban sugar.

(2) Eastern Europe

Sino-East European trade started from a negligible base in 1950, but increased rapidly and by 1959 accounted for 15 percent of Communist China's total trade. (See Table 9.) Up to 1960 East Germany and Czechoslovakia have accounted for approximately two-thirds of Chinese trade with the European Communist countries, Poland and Hungary for less than 30 percent, and Rumania, Bulgaria, and Albania the remainder. Although there are indications that imbalances have developed in Sino-East European trade, Chinese imports from these countries are not known to have been financed by long-term credits.

Next to the USSR, Eastern Europe has been the largest supplier of machinery and equipment to China, including industrial, transport, agricultural, and communications equipment. East Germany and Czechoslovakia have been the chief exporters of machinery and equipment to China. During 1950-59, China received from Eastern Europe machinery and equipment valued at about \$1.7 billion, approximately 40 percent of Chinese imports of these items from all sources. The Chinese have paid for

imports by exports of basic raw materials and foodstuffs required by Eastern Europe.

In the past some Eastern European nations on occasion supplemented their own exports to the West by reexporting Chinese products.

2. Mutual Discord During the 1960's

Toward the end of the 1950's discord between the Soviet Union and Communist China grew over a widening range of political and economic matters. For example, the Soviets had second thoughts over the wisdom of supplying China with nuclear information and the Soviets had grave doubts about China's free-wheeling "leap forward" economic policy. Matters came to a head with the abrupt withdrawal of the Soviet technicians from China in mid-1960. Their departure was a serious blow to the Chinese economy at an already critical time, and marked the end of the period of large-scale Sino-Soviet economic collaboration. Trade fell rapidly. (See Figure 2.)

a. USSR

Sino-Soviet trade has declined each year since 1960, dropping to a level of \$450 million in 1964, only one-quarter the level of 1959, and in 1965 amounted to only \$417 million. Despite this reduction in trade, China maintained a large export surplus with the USSR in order to pay off its indebtedness ahead of schedule. In 1963 and 1964 alone, China maintained an export surplus of over \$400 million with the Soviet Union. In an attempt to bring trade into better balance in

1965, China increased its imports from the Soviet Union by over \$50 million to \$192 million, while decreasing exports by \$90 million, to \$225 million, reflecting the completion of Chinese debt payments.

After the withdrawal of Soviet assistance, Communist China's imports of machinery and equipment from the Soviet Union fell to a trickle, amounting to only \$27 million in 1962. With the gradual upturn in China's industrial production since 1962, imports of machinery and equipment from the Soviet Union have revived slightly, reaching a level of \$58 million in 1964 and \$77 million in 1965. Though still not importing any complete plants, China has been purchasing more spare parts and replacements for existing stocks of Soviet equipment, particularly civil aircraft and transportation and construction equipment. As for exports, in 1964 China reduced shipments to the Soviet Union of almost all items. The sharpest drops were in fabrics (down \$51 million), garments (down \$40 million), ores and concentrates (down \$13 million), metals (down \$9 million), and construction materials, mainly cement (down \$8 million). In 1965, China further reduced shipments to the USSR of fabrics and clothing (down \$84 million), and metals (down \$12 million).

b. Eastern Europe

Following 1960, Sino-East European trade also dropped sharply, and in 1961 amounted to only one-half the level of 1960. This sudden drop in trade

created difficulties for Eastern Europe both in marketing machinery produced to Chinese specifications and in finding alternate sources of supply and the means of financing of materials that were normally imported from China. Sino-European trade continued to fall sharply in 1962, trade with some nations falling more sharply than that with others. China's trade with East Germany, Czechoslovakia, and Hungary, the important Chinese trade partners in Eastern Europe and those countries most strongly supporting the Soviet position in the Sino-Soviet political dispute, declined by 40 to 50 percent, while trade with Poland declined by some 20 percent. Chinese trade with Albania -- China's strongest ally in the Sino-Soviet dispute -- increased in 1962 chiefly due to increased Chinese aid deliveries to Albania under long-term credit arrangements.

By 1964, total Sino-East European trade increased by 6 percent over the 1962 level. Of this total increases in trade with Albania, Rumania, and to a lesser extent, Poland, offset a decline in trade with East Germany and Czechoslovakia. In 1965, China's trade with Eastern Europe jumped 22 percent over 1964, the largest increases occurring with East Germany (up \$16 million) and Rumania (up \$15 million). (See Table 10.) The bulk of China's imports continue to be machinery and equipment.

B. Asian Communist Countries

Communist China's total trade with North Vietnam, North Korea, and Mongolia has been small, amounting to less than 10 percent of China's total trade and has been

governed largely by its economic assistance programs to these countries. The rivalry between China and the USSR in the extension of aid to these countries has been exacerbated since the flaring up of the Sino-Soviet dispute as each country has maneuvered to win adherents in the political struggle. As a result of this struggle, China's trade with North Korea and Mongolia has declined, while trade with North Vietnam has increased.

The extension of credits and grants by China has played an important role in the economic development of these nations. (See Tables 11 and 12.) Communist China has supplied economic and technical assistance for the development of both light and heavy industry in North Vietnam including the Thai Nguyen iron and steel plant, and the rehabilitation and development of North Vietnam's transportation and communications facilities as well as in the improvement of its irrigation system. North Korea has received equipment and technical assistance from China for light industrial projects and powerplants. China and North Korea are cooperating in the building of a large hydroelectric power station on the Yalu River. Chinese economic aid to Mongolia has been concerned primarily with the development of light industry and with housing construction. In addition, between 1956 and 1964 large numbers of Chinese laborers were sent to work on Mongolian construction projects.

Communist China's trade with Mongolia has declined in importance since 1959 largely because of Mongolia's firm commitment to the USSR in the Sino-Soviet dispute.

A similar decline in China's exports to North Korea since 1962 probably reflects the completion of drawings on credits provided by China in 1960 as well as the more recent political leanings of North Korea toward the USSR. Counter to this declining trend has been an increase in China's trade with North Vietnam. China supplied large-scale assistance in support of North Vietnam's First Five Year Plan (1961-65). But perhaps the largest stimulus to increasing Sino-North Vietnamese trade has been China's increasing technical and materiel support to the bomb-damaged economy of North Vietnam and for the prosecution of the war with South Vietnam.

C. Cuba

Sino-Cuban trade first began to assume significant proportions in 1960 following the establishment of formal trade relations and the extension by Communist China of a \$60 million interest free credit. This credit was to be drawn between 1961 and 1965 to finance exports of complete plants and for other technical aid to help Cuba develop its economy. Trade between the two countries developed rapidly, and between 1961 and 1965, the average annual turnover amounted to about \$180 million.

The growth of Sino-Cuban trade between 1961 and 1965 was based chiefly on the exchange of Cuban sugar for Chinese foodstuffs, including rice, soybeans, textiles, machinery and other industrial equipment, part of which was financed under the \$60 million economic credit. (See Table 13.) Apparently, Sino-Cuban trade will decline in 1966 because of a rapid deterioration in political relations. According to statements

by Fidel Castro, China has decided to reduce its trade with Cuba in 1966 by importing less Cuban sugar and exporting less rice and other commodities than in 1965. China, moreover, has insisted that trade should be balanced and press announcements from Havana indicate that a total trade turnover of about \$170 million is expected in 1966. This level of trade is slightly below the average annual turnover for 1961-65 and considerably below the record level reached in 1965.

III. Trade With the Free World

A. The 1950's -- The Marginal Supplier

Communist China's trade with the Free World during the first half of the 1950's declined sharply in total value and in relative importance. China's total foreign trade doubled in the five years from 1950 to 1954, but trade with the Free World, which accounted for 70 percent of total trade in 1950, dropped in absolute value by nearly 30 percent and in relative terms to only 25 percent of total trade in 1954.

During the second half of the decade trade with the Free World revived, rising from \$785 million in 1955 to \$1.4 billion in 1958 and to about \$1.3 billion in 1959, when it accounted for about one-third of total Chinese trade. This upsurge was furthered by the rapid economic advance in Communist China, and, in part it represented an effort to develop alternate sources for industrial materials in short supply or not readily available within the Bloc. Growth in trade with Western Europe was particularly rapid, reflecting the rising Chinese need for chemicals and metals. Thus, while China's trade with Western Europe more than tripled, China's trade with the less-developed countries -- Southeast Asia -- grew by only 50 percent. Trade with the less-developed areas expanded in large measure to promote the political policy of

developing closer relations with many of the uncommitted countries of this area, and, where possible, to acquire foreign exchange to cover purchases from Western Europe.

However; China's preoccupation with its own industrialization limited its expansion of economic assistance to the less-developed areas.

B. The 1960's -- The Major Supplier

Communist China's trade with the Free World has grown rapidly since 1960, and by 1965 accounted for more than two-thirds of China's total trade. (See Table 14.)

China's economic difficulties and the impact of the Sino-Soviet dispute have been the principal factors in the redirection of trade. Beginning in 1961, agricultural failures forced China to import 6 million tons of grain annually. At first, these purchases were financed by means of drastic cuts in imports of machinery and other investment goods, emergency sales of precious metals, and credits from Canada and Australia, the principal grain supplying countries. Later, China was able to shift exports to markets where urgently needed hard currency could be obtained.

Rapid shifts also occurred in the geographic distribution of trade with the Free World. Canada and Australia increased their exports (grain) to China many-fold in 1961 whereas Western Europe's exports (industrial products) declined by 75 percent.

Imports of capital goods from the industrial West, however, have revived since 1962, following the gradual recovery in China's industrial production. In 1963, for the first time since 1950, the Free World accounted for more than half (55 percent) of

China's trade. Moreover, since 1960 the greatly altered emphasis of China's investment program has meant a growing demand for chemical and petro-chemical plants, mining equipment, and other capital goods that the Soviet Bloc economies are less able to supply.

Trade with Free World countries has been important to Communist China for certain raw materials (cotton, rubber, wool), producers' goods (some types of steel and nonferrous metal manufactures, chemical fertilizers, artificial fibers), and more recently grain and complete industrial installations. The Chinese also have benefited from small purchases of special purpose items embodying advanced designs such as instruments, machine tools, and electronic equipment. Particularly since the loss of Soviet technical assistance in 1960, China's entry into advanced fields of production will depend largely on the acquisition of Western equipment and technical knowledge. The Free World, on the other hand, has received useful but not critical imports from China; including an increasing range of textiles and light industrial products, agricultural commodities ranging from rice and tea through Chinese specialties such as tung oil, bristles, feathers, processed food, hog casings, oilseeds, and essential oils; and metals and minerals including tin, wolfram, mercury, pig iron, and coal. For individual Free World trade partners, except Hong Kong, trade with China has represented less than 10 percent of their total trade. But, Chinese purchases of individual commodities have been quite important at times, such as in the case of Ceylonese rubber and Australian and Canadian grain.

1. Grain

Chinese Communist purchases of grain have become an established fact of life in the Chinese economy and purchases since 1961 have averaged about 6 million tons a year at an average annual cost of \$400 million, as shown in the following tabulation:

Communist China: Grain Purchases from the West, 1961-65

<u>Year</u>	<u>Million Metric Tons</u>	<u>Value (c.i.f.)</u> <u>(Million US\$)</u>
1961	6.2	434
1962	5.3	371
1963	5.7	400
1964	6.8	475
1965	5.7	400
	29.7	2,080

China's retained imports, i.e., grain imports less grain exports, are lower than this, since each year there are shipments on Chinese account to other countries, notably Albania. About 80 percent of these imports of grain have come from the industrial West (Canada, Australia, and France), although other suppliers such as Argentina and Mexico have also been significant. (See Table 15.) China's continued need for large grain imports is demonstrated by a contract signed with Canada in October 1965, which calls for the purchase of 5 million to 12.5 million tons over the next 3 to 5 years.

The reasons for China's concern to ensure future supplies are not difficult to find. Over the past few years, food production has barely kept up with the growth in population, and domestic production of food may now be as much as 10 percent below the per capita level of 1957. Thus, China will have to continue importing grain for the foreseeable future, and probably at a gradually increasing rate to say 7 to 8 million tons a year. The Chinese claim they are buying wheat to facilitate the sale of more expensive rice. This trade makes economic sense as the caloric value of wheat per pound is almost equal to a similar amount of milled rice. However, this claim is only partly true as sales of rice in the past few years have averaged about 800,000 tons per year, or only about 14 percent of average annual grain imports.

As a consequence, agriculture now contributes far less to industrialization than it did in the 1950's. This is shown quite dramatically by the shift in export earnings from food. In 1959, China earned \$820 million net from the sale of food abroad; from 1961 to 1965, however, there was an average annual net deficit of about \$125 million in food sales. As a result, China's capacity to import capital goods declined sharply; imports of machinery and equipment were only \$300 million in 1965, compared with almost \$1 billion in 1959. China's purchases of a few key plants from the West since mid-1963 have just begun to enter into China's trade returns in 1965, but these orders add up to a little less than one-tenth of the \$2 billion spent for grain during 1961-65. The prospects that another \$2 billion may have to be committed for grain purchases in 1966-70 must indeed be a sobering thought for the Chinese planners.

2. Complete Industrial Installations

A major feature of Communist China's foreign economic relations since mid-1963 has been the purchase of complete industrial installations from the Free World, financed in part by medium-term credits, and including, in some cases, the services of Western technicians. Contracts for 30 to 40 complete plants from Western Europe and Japan, valued at more than \$170 million, have been negotiated since mid-1963. Over half the value of the contracts have been chemical plants, including plants for the production of chemical fibers, chemical fertilizers, plastic materials, and petrochemicals. (See Table 16.) These plants, most of which will not be in operation until 1967-68 or later, will either supply vital products for the Chinese economy or will advance Chinese technical competence in important branches of industry. China is currently negotiating with a West German consortium for a steel-mill complex valued at between \$125 and \$175 million. If this contract is successfully concluded, it will almost double the value of Free World plants known to have been purchased by China through December 1965. China also has placed several large orders for other machinery in the past two years, particularly transportation equipment and heavy-duty equipment for construction purposes.

C. Industrial West and Japan

1. Industrial West

Communist China's trade with Japan and the industrial West has grown from about \$700 million in 1962 to \$1.4 billion in 1965 -- an annual average growth of

roughly 25 percent. This growth can be accounted for chiefly by grain imports from Canada and Australia, the two main suppliers, and Peking's turn to Japan and Western Europe as its major source of foreign technology. The growth of trade with Japan has been particularly rapid, and in 1964-65 this trade greatly surpassed the earlier peak of \$150 million reached in 1956. By 1965 trade with Japan had risen to \$470 million, and Japan had replaced the USSR as China's number one trading partner. Although China's trade with Western Europe jumped by about 40 percent in 1965 -- to \$600 million -- this level of trade was still slightly less than the 1959 peak of \$670 million. The bulk of China's imports from Japan and Western Europe have been machinery and equipment, steel products, and chemical fertilizer.

With the exception of Japan, the countries from which Communist China mainly wishes to import -- do not offer comparable markets for China's exports. This is particularly true of Canada and Australia with whom China has had an annual average import surplus of close to \$300 million during 1961-64. Although China has managed to triple her exports to these two countries over this period, reaching some \$35 million in 1964, the scope for additional increases does not appear to be large. China has managed to maintain a small export surplus with Western Europe in 1964 but it remains to be seen whether China can keep pace with a strong upward trend in imports once this is resumed in earnest. Western Europe probably would buy more Chinese agricultural products and industrial raw materials, but does not offer a ready market

for low-quality Chinese manufactured products. The Chinese export drive must therefore be concentrated in the growing markets of the less-developed countries, particularly in the large overseas Chinese communities in Southeast Asia.

2. Japan

The ability of industrial Japan to complement underdeveloped China is reflected in the rapid increase in recent years of Sino-Japanese trade, which has grown as follows:

Communist China: Trade with Japan, 1956-58, average, and 1960-65
(Million US \$)

	<u>Chinese exports</u>	<u>Chinese imports</u>	<u>Total</u>
1956-58 average	72.8	59.4	132.2
1960	20.4	2.8	23.2
1962	45.9	38.6	84.5
1963	74.8	62.4	137.2
1964	157.9	152.9	310.8
1965	225.0	245.0	470.0

Japan is the most important customer for Chinese bulk products such as coal, pig iron, iron ore, salt, coke, soybeans, some perishable foodstuffs and minerals. In turn, China has been purchasing from Japan an increasing quantity of steel products, chemical fertilizer, chemicals, machinery, synthetic fibers, motor vehicles, earth moving equipment, and various other manufactures.

D. The Less-Developed Countries

Communist China has met only with partial success in fashioning trade as a political weapon to capture the "countryside of the world;" i.e., the less-developed countries of Africa, Asia, and Latin America. Basically, each side has an underdeveloped agricultural economy often producing the same type goods, or suffering from similar scarcities best supplied by more technically advanced and industrialized countries.

China's trade with the less-developed countries almost doubled between 1959 and year-end 1965 -- reaching an estimated level of \$825 million, or about 22 percent of China's total foreign trade in 1965. Over half of that trade was conducted with only five countries: Argentina, Indonesia, Malaysia,* the United Arab Republic, and Ceylon. Trade with these countries was of special importance to China's own economy; either for earnings of scarce hard currency as in the case of its lop-sided trade with Malaysia (about \$100 million in net exports), or for essential commodities as grain from Argentina, rubber from Indonesia and Ceylon, and cotton from the U.A.R. With the exception of grain purchases, China has run a trade surplus with the less-developed nations.

E. Unique Role of Hong Kong

The tiny British Crown Colony of Hong Kong inhabited by approximately four million Chinese and a small Western community provide Communist China with its most

* Including Singapore.

important source of hard currency. Hong Kong serves as China's largest customer while selling only a minimal amount to China as the following figures show:

Communist China: Trade with Hong Kong, 1963-65
(Million US \$)

	<u>1963</u>	<u>1964</u>	<u>1965</u>
Exports by China	259	345	407
Imports from Hong Kong	12	10	13
Export surplus of China	247	335	394

With the present level of her trade surplus running about \$400 million, China can buy almost all her annual grain imports from the West with earnings from Hong Kong. China faces a leveling off of these earnings, however, as the colony can use only so much food, which is China's primary export to Hong Kong.

Hong Kong depends on Communist China for meat, fruit, and vegetables, dairy products and oil seeds, rice, wheat, and sugar. It also provides a growing market for Chinese textiles, simple machinery, and other manufactured goods.

Hong Kong also serves as an important trading outpost for Communist China. Hong Kong reexports a portion of the foodstuffs, textiles, and other products obtained from China to other Southeast Asian countries, Japan, and Europe. This entrepôt trade is believed to have been running close to \$90 million annually in the past few years.

The many economic benefits that Peking derives from Hong Kong would be lost or greatly diminished if it were a part of Communist China. Foreign exchange earnings

would be sharply reduced because deliveries to Hong Kong for local consumption would be paid for in domestic currency. The ready exchange of non-Bloc currencies would disappear with the loss of British backing, and the loss as a British-sponsored port would bring a sharp reduction in the use of the commercial and financial facilities in Hong Kong by businessmen of non-Bloc countries.

IV. Outlook

The Chinese have claimed that the abrupt ending of Soviet economic assistance, although extremely damaging in the short-run, would be to China's ultimate advantage, since it would force China to redouble its efforts to widen its own manufacturing capability and to reduce dependence on imports. This widely proclaimed policy of national "self-reliance" has not been so restrictive as to have kept China from contracting for complete plants, machinery and equipment, and in some cases even for technicians, from Japan and Western Europe.

There are few sectors of Communist China's industrial economy that would not gain considerably from imports of plant and equipment and production technology; in fact, for the future development of many branches of the chemical, metallurgical, transportation, and machine-building industries such imports appear essential. There are, moreover, various raw materials which China must buy, perhaps in increasing quantities including rubber, cotton, copper, chrome, nickel, cobalt, and special alloy steels. Imports of chemical fertilizers, pesticides, and farm machinery also remain vital and may well maintain their upward trend. Even in the case of petroleum, where the advance towards self-sufficiency has been unusually rapid, some imports of high quality lubricants almost certainly will be needed for some time to come. Last but not least, Chinese imports of grain may well rise gradually over the next few years.

Communist China then has fundamental economic needs for large-scale trade with the outside world during the Third Five Year Plan (1966-70). The prediction of the future rate of growth of foreign trade, its commodity composition, and its geographical distribution is made doubly hazardous by the current political turmoil in China. The so-called Proletarian Cultural Revolution is in part directed against "foreign" elements that have sneaked into the society. Conceivably the strong xenophobic elements in the political situation could hamper trade; already, foreign businessmen find that trade officials in China are reluctant to make decisions or enter into new agreements. No general policy decision, however, has been made to curtail trade. In any case, the strong unpredicted switches in the volume, composition, and distribution of China's foreign trade in the last 6 years should serve as an object lesson to those seers who attempt to foretell the future of trade in 1966-70.

Over the next five years -- to lay aside these disturbing political elements -- the extent to which foreign trade can expand will depend on how successfully the leadership deals with the problems of expanding agricultural and industrial production. Although China has managed over the past five years to make progress in narrow sectors of the economy -- including its nuclear weapons program -- the country has not regained the economic momentum that marked the 1950's. The economy has never recovered from the dual setback of "leap forward" economic policies and the withdrawal of Soviet economic assistance.

Communist China's foreign trade over the next five years will continue to grow, but will be tied more closely to production capabilities -- particularly in agriculture -- and thus a slower rate of growth subject to considerable fluctuations can be expected than in 1964-65. The trend toward increased trade with the West is likely to continue. The major growth in exports will still be in agricultural products and textiles although there should be some increase in mineral and metal exports. Imports of Western grain have become a continuing necessity and will require the expenditure of a large share of China's annual hard currency earnings. Thus, grain purchases will continue to restrict the import of capital equipment needed for the expansion of modern industry. Barring the receipt of long-term credits which would help trade expand greatly, or a sustained increase in the export of agricultural products, there is little likelihood that imports of capital equipment will increase sufficiently during the Third Five Year Plan (1966-70) to make the contribution to industrial development that they made in the 1950's.

APPENDIX A

Methodological Supplement: Merchandise Trade of Communist China

Merchandise trade includes all commodity exports and imports, valued on an f.o.b. basis. Several adjustments were made in the foreign trade data, reported by the Chinese for 1950-58 and derived from trading partner statistics for 1959-65. It is believed that China records its foreign trade to show the country of destination and origin rather than the country of payment and receipt and furthermore, that its imports from the Free World are valued on a c.i.f. basis. Therefore, two adjustments have been made in the Chinese foreign trade reports: the first, to place China's merchandise trade with the Free World on an f.o.b. basis, and the second, to represent China's trade by country of payment and receipt. This latter adjustment was made because reexports of Chinese goods by the Eastern European Communist countries averaged almost \$30 million a year between 1953 and 1961.

The estimates of Communist China's foreign trade for 1950-58 are based on Chinese official data on foreign trade and the trade data of China's trading partners. Because China in recent years has suspended the publication of all trade data, estimates of its foreign trade after 1958 have been derived exclusively from the information of its trading partners. China's foreign trade in 1950-58 as derived from the data of its trading partners approximated the comparable Chinese data for this period; thus the estimate of China's trade for 1959-65 based on trading partners' data can be combined with data of the earlier period.

Conversion of the yuan values of China's trade for 1950-58 into US dollars has been made on the basis of the following exchange rates: US \$1 equals 4 Yuan in trade with Communist countries; in trade with the Free World, US \$1 equals 3.2 Yuan in 1950, 2.24 Yuan in 1951, 2.1 Yuan in 1952, and 2.5 Yuan in 1953-58. This dual exchange rate system is not reported by China but is derived from a comparison of the yuan values of trade as reported by China with the ruble and dollar values of trade as reported by or estimated from the trade data of China's trading partners. China's reason for establishing this system is not certain. Such factors as the greater stability of prices and the different commodity mix in trade with Communist countries compared with the Free World trade, however, could justify a lower value of the yuan in the Communist trade. Or perhaps the yuan value of exports and imports is established arbitrarily under a system of prices that is insulated from domestic prices.

Estimates of China's trade for 1959-65 are based on the trade data of China's trading partners. To reflect the value of trade as China would report it, the trade data of Free World countries have been adjusted for (a) time leads and lags in shipping, (b) shipping costs, (c) double counting, and (d) unrecorded transactions.* On the other hand, only a few adjustments have been required in the trade data of Communist countries because (a) the Communist countries present their trade data on

* For a more detailed description of these adjustments see CIA/RR ER 66-17, "Communist China's Balance of Payments, 1950-65," Washington, D.C., August 1966, pp. 29-31.

an f.o.b. basis, (b) reexports of Chinese products by the Communist countries to the Free World almost completely disappeared during this period, (c) no shipping time adjustment is required for much of Sino-Soviet trade (that going by rail), and (d) data are insufficient to calculate the shipping time adjustments for the remaining share of Chinese trade with the European Communist countries. Also, the Far Eastern Communist countries have only irregularly reported their trade with China. Trade with these countries has been estimated from miscellaneous data on total and commodity trade and on credit extensions and drawings.

APPENDIX B

Statistical Tables

Table 1

Direction of Chinese Communist International Trade, 1950-65 a/

Million US

Year	Total International Trade			Trade with Communist Countries b/			Trade with the Free World c/		
	Total	Exports	Imports	Total	Exports	Imports	Total	Exports	Imports
1950	1,210	620	590	350	210	140	860	410	450
1951	1,895	780	1,115	975	465	510	920	315	605
1952	1,890	875	1,015	1,315	605	710	575	270	305
1953	2,295	1,040	1,255	1,555	670	885	740	370	370
1954	2,350	1,060	1,290	1,735	765	970	615	295	320
1955	3,035	1,375	1,660	2,250	950	1,300	785	425	360
1956	3,120	1,635	1,485	2,055	1,045	1,010	1,065	590	475
1957	3,025	1,595	1,430	1,935	1,065	870	1,090	530	560
1958	3,735	1,910	1,825	2,350	1,250	1,100	1,385	660	725
1959	4,265	2,205	2,060	2,960	1,595	1,365	1,310	615	695
1960	3,975	1,945	2,030	2,605	1,320	1,285	1,370	625	745
1961	3,015	1,525	1,495	1,680	965	715	1,335	560	775
1962	2,675	1,525	1,150	1,410	920	490	1,265	605	660
1963	2,755	1,560	1,200	1,245	820	425	1,510	740	770
1964	3,245	1,770	1,475	1,125	730	395	2,120	1,040	1,080
1965 d/	3,695	1,955	1,740	1,125	645	480	2,570	1,310	1,260

a. Because of rounding to the nearest \$5 million, components may not add to the totals shown.

b. Including trade with Yugoslavia.

c. Trade reported by Free World countries has been adjusted for time leads and lags in shipping, shipping costs, double-counting, and unrecorded transactions. See Appendix A.

d. Preliminary estimates based on incomplete data.

Table 2

Communist China: Commodity Composition of Trade, 1959, 1962, 1964 and 1965 a/

	Total	1959 Free World	Communist Countries	Total	1962 Free World	Communist Countries	Total	1964 Free World	Communist Countries	Million US Total
Imports	2,205	615	1,595	1,525	605	920	1,770	1,040	730	1,955
Agricultural products (foods)	1,100	390	720	425	285	140	650	515	135	775
(820)	(300)	(520)	(250)	(175)	(80)	(375)	(275)	(100)	(520)	
Industrial materials	360	70	290	300	125	175	320	150	170	400
Textiles	620	120	500	535	155	375	440	200	240	425
Other manufactured goods	115	35	85	265	40	225	350	175	175	355
Exports	2,060	695	1,365	1,150	660	490	1,475	1,080	395	1,740
Agricultural products (foods)	10	10	--	575	455	120	820	735	85	700
Fertilizers (chemical)	70	70	--	(460)	(345)	(110)	(600)	(525)	(75)	(530)
Industrial materials	740	500	240	40	40	N.A.	60	60	N.A.	140
Machinery and equipment	980	70	910	305	125	180	325	195	130	485
Other	260	45	215	120	20	105	200	70	70	300
				110	25	85	70	20	50	115

Data have been rounded to the nearest \$5 million. Because of rounding, components may not add to the totals shown.

Preliminary estimates based on incomplete data.

Table 3

Communist China: International Financial Resources, Year-End Balances
1957 and 1959-64 ^{a/}

Million US

	1957 ^{b/}	1959	1960	1961	1962	1963	1964
Foreign exchange reserves	645	530	415	355	320	335	400
Foreign currency balances ^{c/}	610	450	300	215	155	145	185
Monetary gold holdings ^{d/}	35	80	115	140	165	190	215
Clearing account balances (with Communist countries) ^{e/}	-360	-135	-625	-260 ^{f/}	-205	-120	-55
Net international financial resources	285	95	-210	95 ^{f/}	115	215	345

a. Table 3 is from CIA/RR ER 66-17, "Communist China's Balance of Payments, 1950-65," Washington, D.C., August 1966, p. 7. Data are rounded to the nearest \$5 million.

b. Because foreign exchange reserves were negligible at the beginning of 1950, reserves at the end of 1957 represent the net changes during 1950-57.

c. Net balance of errors and omissions (from China's balance of payments with the Free World), which are almost entirely changes in foreign currency balances arising from transactions with the Free World.

d. Net balance of changes in holdings of monetary gold.

e. Net balance of errors and omissions (from China's balance of payments with the Communist countries), which are almost entirely clearing account balances arising from transactions with Communist Countries.

f. The reduction in the clearing debt in 1961 and the consequent improvement in China's clearing and foreign exchange position are due almost entirely to the USSR's funding of China's clearing debt of \$320 million. (See p. 14, below).

Table 4

Communist China: Economic Credits and Grants to Communist Countries, 1953-65 a/

	Total	Albania	Cuba b/	Hungary	North Korea	North Vietnam	Outer Mongolia	Million US
1953	200.0	--	--	--	200	--	--	--
1954	--	--	--	--	--	--	--	--
1955	204.0	4	--	--	--	--	--	--
1956	49.5	2	--	--	--	--	200	--
1957	54.0	4	--	7.5	--	--	--	40
1958	55.0	5	--	50.0	--	--	--	--
1959	119.0	19	--	--	25	--	--	25
1960	220.0	5	60	--	--	100	--	--
1961	282.0	125	--	--	105	--	--	50
1962	N.A.	N.A. c/	--	--	--	--	157	--
1963	40	--	40	--	--	--	--	--
1964	--	--	--	--	--	--	--	--
1965	N.A.	N.A.	--	--	--	--	N.A.	--
Total	1,223.5	164	100	57.5	330	457	115	

a. With the exceptions noted, source of table is Alexander Eckstein, Communist China's Economic Growth and Foreign Trade, (New York: McGraw Hill, 1966), Appendix E, p. 306.

b. Figures revealed by Prime Minister Fidel Castro in speech on 2 January 1966.

c. Albanian press reported additional aid extended by Communist China, but amount not known.

Table 5

Communist China: Economic Credits and Grants to Free World Countries,
1956-65 and Year 1964 and 1965

	1956-65 a/	1964 b/	1965 a/	Million US \$
<u>Total</u>	<u>815</u>	<u>337.8</u>	<u>59</u>	
<u>Africa</u>	<u>264</u>	<u>115.1</u>	<u>15</u>	
Algeria	50	0	0	
Central African Republic	4	4.0	0	
Congo (Brazzaville)	25	25.2	0	
Ethiopia	0	0	0	
Ghana	40	22.4	0	
Guinea	25	0	0	
Kenya	18	18.0	0	
Mali	20	0	0	
Somalia	22	0	0	
Tanzania	45	45.5	0	
Uganda	15	0	15	
<u>Asia</u>	<u>410</u>	<u>114.2</u>	<u>44</u>	
Afghanistan	28	0	28	
Burma	85	0	0	
Cambodia	50	0	0	
Ceylon	42	4.2	0	
Indonesia	105	50.0	16	
Nepal	40	0	0	
Pakistan	60	60.0	0	
<u>Middle East</u>	<u>141</u>	<u>108.5</u>	<u>0</u>	
Syrian Arab Republic	16	0	0	
United Arab Republic	85	80.0	0	
Yemen	40	28.5	0	

a. U.S. Department of State, "Communist Governments and Developing Nations: Aid and Trade in 1965," Research Memorandum, RSB-50, June 17, 1966.

b. Alexander Eckstein, Communist China's Economic Growth and Foreign Trade, (New York: McGraw Hill, 1966), Appendix E, p. 307.

Table 6

Soviet Project Construction Agreements with Communist China
1950-59

Date of Agreement	Economic Credits (Million US \$) a/	Number of Projects	Value of Complete Sets of Equipment b/ (Million US \$) a/
February 1950	300	50	N.A.
September 1953 c/	0	91	1,300 d/
October 1954	130	15	100
April 1956	0	55	625
August 1958	0	47	N.A.
February 1959	0	78	1,250
Total	<u>430</u>	<u>291 e/</u>	<u>3,275</u>

a. Converted from rubles at the official rate of exchange of 4 rubles to US \$1.

b. Including technical assistance related to these projects.

c. An agreement signed to deliver equipment for a total of 141 projects.

d. This sum includes the value of equipment and technical assistance for all of the 141 projects.

e. The Chinese announced in April 1959 that the 211 major Soviet-assisted projects agreed on through April 1956 were reduced in number to 166 as a result of merging of some projects during their construction. Thus the total of 336 projects was reduced to 291.

Table 7

Soviet Exports to Communist China, 1958-1965 a/

Million US

	1958		1959		1960		1961		1962		1963		1964		1965	
	Value	Percent	Value	Percent												
Total exports	634.0	100	954.5	817.1	367.3	233.4	187.2	135.2	100	191.7	100.0					
Machinery and equipment (Complete plants)	318.0	50.2	597.5	503.9	108.1	27.3	42.2	57.6	42.6	77.0	40.2					
	166.2	26.2	399.8	373.8	78.9	8.8	14.6	12.3	9.1	3.9	2.0					
Industrial raw materials (Petroleum and petroleum products)	173.4	27.4	176.3	188.7	166.9	127.0	107.4	56.7	42.0	71.9	37.5					
	92.4	14.6	117.7	113.1	120.7	80.5	60.7	21.6	16.0	2.2	1.1					
	60.8	9.6	48.0	59.3	34.7	28.2	27.4	20.8	15.4	34.7	18.1					
	15.8	2.5	6.4	10.5	6.5	5.6	4.9	3.1	2.3	3.8	2.0					
Consumer goods (Foods)	9.2	1.5	6.6	4.4	67.2	30.6	14.2	7.2	5.3	1.4	0.7					
	1.1	0.2	0.5	Negl.	63.8	20.8	0.7	0.1	0.1	Negl.	Negl.					
Other merchandise	17.0	2.7	12.3	13.1	6.1	3.4	2.3	5.6	4.1	16.9	8.8					
Unspecified	116.4	18.4	161.4	107.0	19.1	45.1	21.2	8.2	6.1	24.5	12.8					

a. Figures based on *Vneshniaia Torgovlia S.S.R. za 1965 god*, Ministerstvo Vneshnei Torgovli S.S.R. (Moskva, 1965) and other volumes.
 Exports are f.o.b. Because of rounding, components may not add to totals shown.

Table 8

Soviet Imports from Communist China, 1958-65 a/

Million US \$

	1958 Value	1958 Percent	1959 Value	1960 Value	1961 Value	1962 Value	1963 Value	1964 Value	1964 Percent	1965 Value	1965 Percent
Total imports	881.2	100.0	1,100	848.1	551.4	516.3	413.0	314.2	100.0	225.6	100.0
Industrial materials	233.3	26.5	277.2	218.4	128.4	103.8	79.0	56.9	18.1	29.7	13.2
Ores and concentrates	74.0	8.4	73.3	61.2	48.3	35.3	25.9	13.2	4.2	11.6	5.1
Ferrous metals	19.2	2.2	7.6	12.8	8.7	6.6	10.9	10.6	3.4	--	--
Nonferrous metals	48.9	5.5	54.9	48.9	34.2	25.9	12.5	3.1	1.0	1.4	0.6
Textiles	37.5	4.3	91.6	65.3	22.7	13.9	8.6	6.7	2.1	3.6	1.6
Consumer goods	483.0	54.8	644.4	518.4	360.6	382.3	309.6	230.1	73.2	172.9	76.6
Food	230.1	26.1	219.1	127.9	17.4	38.1	21.9	51.9	16.5	78.2	34.7
Fabrics and clothing	158.4	18.0	306.3	293.2	277.1	299.4	256.6	165.2	52.0	81.3	36.0
Other merchandise	160.7	18.2	171.6	96.6	31.0	26.6	19.0	15.5	4.9	13.4	5.9
Unspecified	4.0	0.5	7.2	14.7	31.4	3.6	5.5	11.8	3.8	9.6	4.3

a. Figures based on *Vneshniaia Torgovlia S.S.R. za 1965 god*, Ministerstvo Vneshnei Torgovli S.S.R. (Moskva, 1965) and other volumes.
Imports are f.o.b. Because of rounding, components may not add to totals shown.

Table 9

Communist China: Trade with Eastern European Communist Countries, 1950-65 a/

	Total	China's Imports	China's Exports	Million US \$
1950	20	5	15	
1951	205	65	140	
1952	320	155	165	
1953	340	190	150	
1954	370	240	130	
1955	435	235	200	
1956	465	265	200	
1957	500	275	225	
1958	670	410	260	
1959	655	325	330	
1960	640	340	300	
1961	325	165	160	
1962	230	80	150	
1963	225	70	155	
1964	245	85	160	
1965 b/	299	132	167	

a. Including Albania and excluding Yugoslavia. Totals have been rounded to the nearest \$5 million.

b. Preliminary trade estimates compiled primarily from official yearbooks and monthly statistical bulletins of the East European Communist countries.

Table 10

Communist China: Trade with Eastern Europe, by Country, 1962-65 a/

	China's Exports				China's Imports				Million US \$
	1962	1963	1964	1965 b/	1962	1963	1964	1965 b/	
Total	<u>147.1</u>	<u>156.6</u>	<u>160.8</u>	<u>167.0</u>	<u>78.0</u>	<u>72.7</u>	<u>85.5</u>	<u>132.0</u>	
Albania	42.1	41.7	61.7	70.0	11.7	23.4	23.9	25.0	
Bulgaria	3.2	2.3	1.1	1.0	3.3	1.3	1.5	1.0	
Czechoslovakia	25.6	29.0	20.6	13.0	11.9	9.3	9.3	19.0	
East Germany	32.0	24.7	19.5	25.0	21.9	10.4	15.6	26.0	
Hungary	11.0	20.0	14.9	11.0	11.9	3.3	4.3	15.0	
Poland	22.7	24.8	25.0	25.0	15.1	11.2	15.0	19.0	
Rumania	10.5	14.1	18.0	22.0	2.2	13.8	15.9	27.0	

a. Trade data for 1962-64 are from CIA/RR ER 65-37, "Foreign Trade of the European Satellites in 1964: A Statistical Summary," Washington, D.C., Dec 1965.
 b. Preliminary trade estimates compiled primarily from official yearbooks and monthly statistical bulletins of the East European Communist countries.

Table II

Derivation of Chinese Communist Trade with the Far Eastern Communist Countries, 1950-58 a/

Million U.S.

	1950	1951	1952	1953	1954	1955	1956	1957	1958
Total Trade b/	5	20	30	50	95	115	120	130	160
Exports on Credit or Grant Basis	3 c/	14 c/	21 c/	35 c/	75 d/	97 d/	82 d/	48 d/	58 d/
Commercial Trade (Excluding Credits and Grants)	2 c/	6 c/	9 c/	15 c/	20 e/	18 e/	38 e/	82 e/	102 e/
Derived Trade b/									
Imports f/	0	5	5	10	10	10	20	40	50
Exports g/	5	15	25	40	85	105	100	90	110

a. Table from CIA/RR ER 66-17, "Communist China's Balance of Payments, 1950-65," Washington, D.C. August 1966, p. 37.

b. Includes North Korea, North Vietnam, and Mongolia. Data are rounded to the nearest \$5 million.

c. During 1950-54, as China restored and expanded its economy, commercial trade probably increased rapidly, although it amounted to a relatively small percentage of the aid goods which China provided to North Korea for its war with South Korea and to Viet Minh forces in Vietnam. Thus, commercial trade during 1950-53 is assumed to amount to about 30 percent of total trade. Exports on credit or grant basis are the residual of total trade less commercial trade.

d. Based on announced credit extensions and drawings and related data.

e. Total trade less exports on credit or grant basis.

f. Half of the value of commercial trade, on the assumption that commercial trade has been balanced each year.

g. Total trade less imports.

Table 12.

Communist China: Trade with Far Eastern Communist Countries, 1959-64 a/

Million US \$

Year	Total Trade b/	Imports	Exports
1959	244	83	161
1960	255	96	159
1961	257	93	164
1962	262	88	174
1963	263	96	167
1964	227	92	135

a. Table from CIA/RR ER 66-17, "Communist China's Balance of Payments, 1950-65," Washington, D.C., August 1966, p. 40.

b. Includes North Korea, North Vietnam, and Mongolia. Data based on miscellaneous and incomplete trade data of the Far Eastern Communist countries and information on the extension and implementation of Chinese credits and grants. In the absence of clearing account data, commercial trade is assumed to have been balanced between exports and imports. China's aid deliveries were largely estimated on the assumption of a straight-line drawing of credits and grants.

Table 13

Communist China: Trade with Cuba, 1960-65 a/

Million US \$

Year	Total Trade	Imports	Exports
1960	42	32	10
1961	182	92	90
1962	171	89	82
1963	156	73	83
1964	180	81	99
1965	213	98	115

a. Compiled from Chinese and Cuban sources but excluding shipping costs (which the Cuban sources apparently included), which are estimated at 10 percent of the value of imports.

Table 14

Communist China: Trade with Countries of the Free World, 1961-64 a/

	1961	1962	1963	1964	Million US
<u>Exports</u>	<u>560</u>	<u>605</u>	<u>740</u>	<u>1,040</u>	
<u>Total Industrial West</u>	<u>222</u>	<u>210</u>	<u>265</u>	<u>415</u>	
Western Europe of which:	181	149	172	229	
United Kingdom	73	50	47	59	
West Germany	35	32	34	49	
France	13	15	19	28	
Italy	10	12	19	21	
Japan	29	44	71	150	
Australia, Canada, New Zealand	12	17	22	36	
<u>Total less developed countries</u>	<u>223</u>	<u>229</u>	<u>304</u>	<u>371</u>	
South and Southeast Asia of which:	165	194	226	270	
Burma	21	27	25	34	
Ceylon	21	20	32	39	
Indonesia	40	45	34	38	
Malaya and Singapore	54	61	90	95	
Pakistan	3	4	6	17	
Middle East	27	32	42	45	
Africa	29	31	34	54	
Latin America of which:	2	2	1	2	
Argentina	b/	b/	b/	b/	
Hong Kong c/	<u>115</u>	<u>138</u>	<u>170</u>	<u>253</u>	
<u>Imports</u>	<u>775</u>	<u>660</u>	<u>770</u>	<u>1,080</u>	
<u>Total Industrial West</u>	<u>602</u>	<u>473</u>	<u>582</u>	<u>684</u>	
Western Europe of which:	234	170	184	196	
United Kingdom	52	28	35	56	
West Germany	46	36	18	20	
France	41	21	67	43	
Italy	38	23	21	20	
Japan	17	40	66	160	
Australia, Canada, New Zealand	350	263	332	328	
<u>Total less developed countries</u>	<u>174</u>	<u>186</u>	<u>188</u>	<u>394</u>	
South and Southeast Asia of which:	109	100	94	131	

Table 14 (Continued)

	1961	1962	1963	1964
Burma	40	20	13	18
Ceylon	16	33	22	25
Indonesia	32	40	37	68
Malaya and Singapore	9	b/	6	1
Pakistan	10	2	12	13
Middle East	27	30	34	54
Africa	28	22	54	54
Latin America	9	34	7	155
of which:				
Argentina	5	33	4	112
Hong Kong	1	2	2	2
Total Free World	<u>1,335</u>	<u>1,270</u>	<u>1,510</u>	<u>2,120</u>

a. Data are based on the official statistics of Free World countries, adjusted to approximate Chinese foreign trade on an export f.o.b. and an import c.i.f. basis. Adjustments also have been made for double counting and for undercounting such as Chinese grain purchases sent to other countries. Because of rounding, components may not add to the totals shown.

b. Less than \$500,000.

c. Net of entrepôt trade with third countries.

Table 15

Communist China: Net Trade in Grain, 1957/58-1965/66

(Million Metric Tons)

	1957/58 a/	1961/62	1962/63	1963/64	1964/65	1965/66 b/
<u>Retained Imports</u>						
Canada	--	2.5	1.7	1.3	1.8	2.3
Australia	--	2.1	2.0	2.7	2.2	1.8
Argentina	--	0.2	0.3	1.2	0.7	2.2
France	--	0.5	0.9	0.3	0.1	0
Other	--	0.7	0.5	0.4	0.5	0
Total	--	6.0	5.4	5.9	5.3	6.3
<u>Exports</u>						
	0.7	1.1	0.8	0.9	0.8	0.8
<u>Net Trade</u>	-0.7	+4.9	+4.6	+5.0	+4.5	+5.5

a. 1 July-30 June.
 b. Tentative figures.

Table 16

Communist China: Purchase of Whole Plants from Western Europe and Japan
August 1963 - December 1965

Plant and Equipment	Country of Origin	Value (Million US \$)	Capacity	Date of Contract	Remarks
Whole Plants					
Vinylon fiber plant	Japan	20	11,000 mt per year	Aug 1963	Trial production began in September 1965.
Urea plant	Netherlands	6	175,000 mt per year	Sep 1963	Scheduled to begin production of fertilizer by October 1966.
Synthetic ammonia plant	United Kingdom	7	105,000 mt per year	Oct 1963	This plant is to complement the Dutch urea plant.
Petroleum refinery	Italy	5	150,000 to 200,000 mt per year	Dec 1963	
Ammonium nitrate plant	Italy	14.2	110,000 mt per year	Dec 1963	
Synthetic ammonia plant	Italy	3.6	N.A.	Dec 1963	This plant is being built in Albania. The contract includes facilities for the production of ammonia, nitric acid, and ammonium nitrate fertilizer.
Industrial alcohols plant	France	3	N.A.	Jan 1964	
Palm oil processing plant	Netherlands	2	N.A.	May 1964	
Crude oil cracking and olefins-separation plant	West Germany	12.5	50,000 mt per year	Jul 1964	The scheduled start-up is mid-1967.
Synthetic fiber plant (nylon)	West Germany	1.5	N.A.	Jul 1964	
Polyethylene plant	United Kingdom	12.6	24,000 mt per year	Sep 1964	This plant will use ethylene produced by the olefins-separation plant purchased from West Germany.

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Table 16 (Continued)

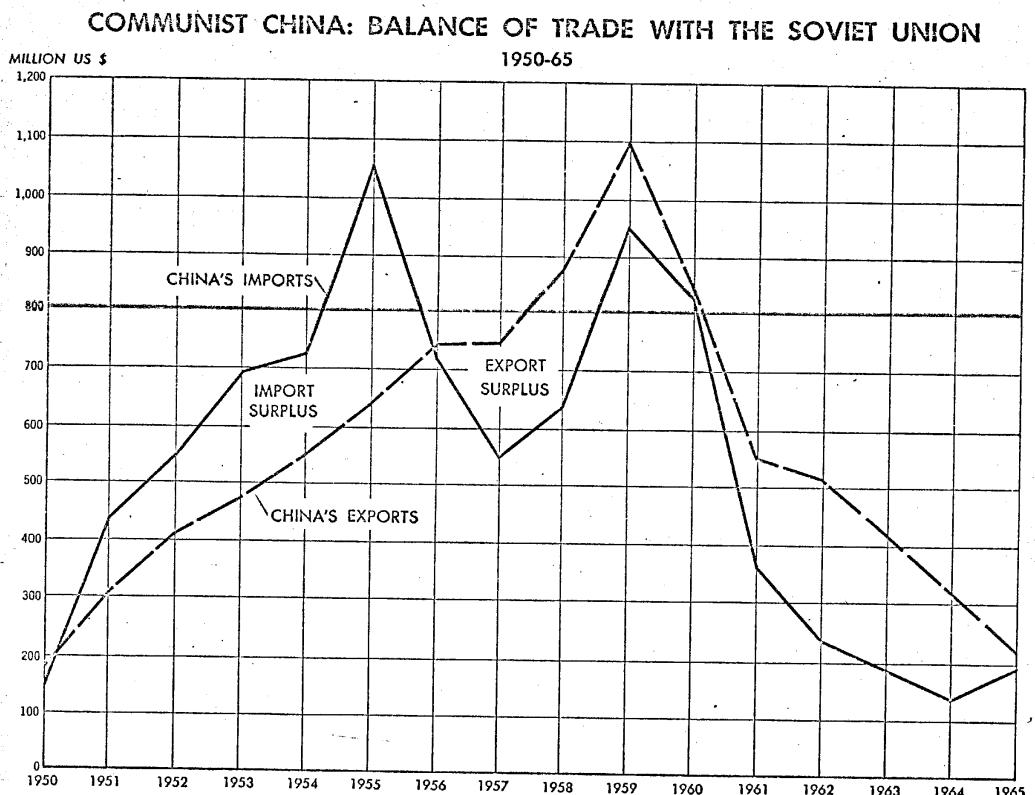
Plant and Equipment	Country of Origin	Value (Million US \$)	Capacity	Date of Contract	Remarks
Polypropylene plant	United Kingdom	7.3	N.A.	Nov 1964	Both resin and fiber products will be made from propylene produced by the olefins-separation plant.
Complete plant for the manufacture of porous silica material	Sweden	1.8	150,000 cubic meters per year	Dec 1964	
Acetylene generating plant	Japan	0.3	1,100 cubic meters per year	May 1964	This plant is in operation and complements the vinylon fiber plant.
Air liquefaction plant	Japan	1.7	N.A.	Sep 1964	This plant was delivered in August 1965.
Precision measuring instrument plant	Japan	0.6	N.A.	Nov 1964	To be delivered by the end of 1966.
Oil hydraulic equipment manufacturing plant	Japan	1.8	N.A.	Mar 1965	Construction to be completed in December 1966.
Acrylonitrile plant	West Germany	4.6	10,000 mt per year	May 1965	Equipment is to be delivered by mid-1967.
Glass plant	West Germany	3.5	N.A.	Mid-1965	
Polyester resin plant	United Kingdom	0.1	N.A.	Jul 1965	This plant is scheduled to begin production before the end of 1966.
Acrylic fiber plant	United Kingdom	0.4	N.A.	Aug 1965	
Condenser manufacturing plant	Japan	2	200,000 condensers per year	Sep 1965	
Air liquefaction plant	West Germany	3.3	N.A.	Aug 1965	
Wire-drawing plant	Japan	5	N.A.	1965	

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Table 16 (Continued)

Plant and Equipment	Country of Origin	Value (Million US \$)	Capacity	Date of Contract	Remarks
Instrument plant	United Kingdom	1	N.A.	1965	
Tube-expanding pipe plant	Italy	3	N.A.	1965	
Straw cellulose plant	Finland	N.A.	62.5 mt of semi-chemical cellulose daily	1965	
Bleaching plant	Finland	N.A.	80 mt of bleached sulfur cellulose daily	1965	
L-D steel plant	Austria	12	650,000 mt per year	1965	
Cold-strip steel rolling mill	West Germany	17	N.A.	1965	

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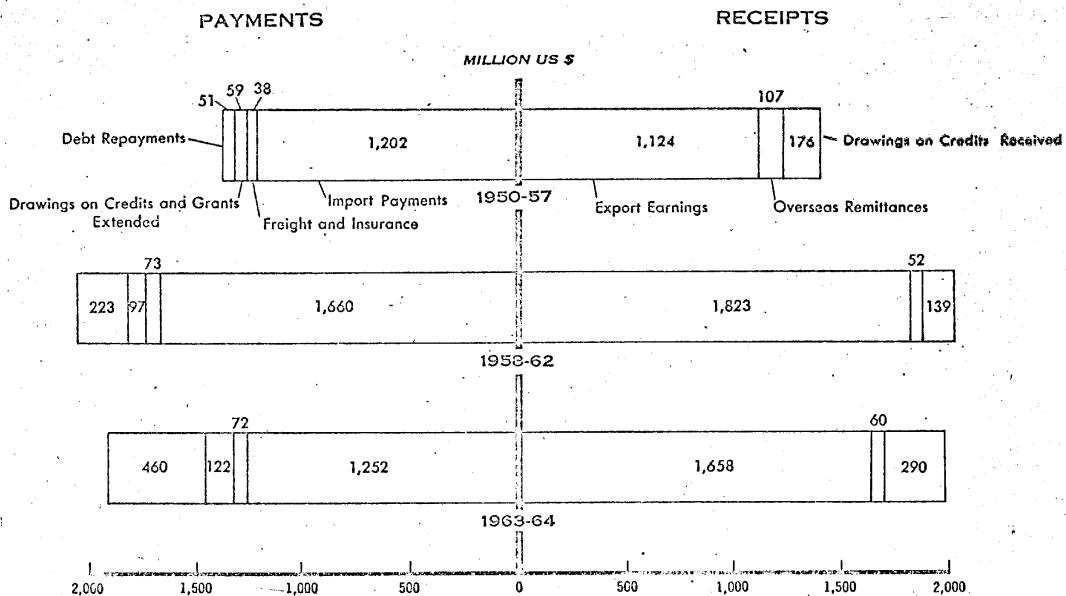
*The sharp increase in Communist China's imports in 1955 probably reflects the transfer to China of joint stock companies and other Soviet-held assets.

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Figure 1

COMMUNIST CHINA: International Payments and Receipts*

Annual Averages for Selected Periods, 1950-64



*Excluding other miscellaneous payments and receipts.